



Congresswoman Grace Napolitano

# Social Security Reform: A Guide for Latinas

By Julia Young

**S**ocial Security reform is a particularly pressing issue for Latinas, who rely on Social Security income more than almost every other demographic group. Without it, 61 percent of Latinas age 65 and over would be living at or below the federal poverty level. Hispanic women tend to use Social Security benefits longer than other groups, since they have greater life expectancies than men, white women, and black women. Given its importance for Latinas, it is crucial to understand the current debate surrounding Social Security.

Designed to protect the elderly and those who cannot work from poverty, Social Security provides retired individuals, disabled workers, and the families of deceased workers with financial benefits. Social Security has become the most significant source of income for the majority of retirees over the age of 65.

However, most of the money that is used by the government to provide Social Security benefits

comes from payroll taxes—so the fact that Americans are living longer, having fewer children, and spending more time in retirement means that Social Security funds are running dry.

According to the Government Accountability Office (GAO), an independent and nonpartisan agency that studies the programs and expenditures of the federal government, funds will begin to

fall short by 2018, and by 2042, they will be insufficient to fully finance benefits. According to a recent GAO report on retirement and disability, “Social Security faces severe, long-term, structural financing challenges that if not addressed, could lead to the depletion of its trust funds.”

Although most people agree that Social Security needs some kind of reform, the questions of how and when to reform Social Security are key points of contention in the current debate. According to the GAO, Social Security reform could be implemented in a number of different ways, including by increasing payroll taxes, reducing Social Security benefits, or encouraging older workers to delay retirement.

The Bush administration is considering a number of alternatives for reforming Social Security, but the most prominent is “privatization,” a plan that would allow younger workers to put part of their payroll taxes in personal retirement accounts and invest the money in a mix of bond and stock funds. Opponents of Bush’s reform agenda argue that Social Security privatization would result in reduced benefits, and possibly risky investments, for those who chose to privatize their accounts.

To showcase these different perspectives, *LATINA Style* turns to two of the most prominent Latinas in politics, U.S. Treasurer Anna Escobedo Cabral and Congresswoman Grace Napolitano (D-Calif.).

**Do you believe that there is an urgent need to reform Social Security?**

**Anna Escobedo Cabral:** Social Security is safe for today’s seniors and for those nearing retirement—but it is in serious danger for our younger workers. In 2008, baby boomers will begin to retire; by 2017, the government will begin to pay out more in Social Security benefits

than it collects in payroll taxes; and by 2041—when younger workers begin to retire—the system will be bankrupt. The longer we wait to fix the problem, the more expensive it becomes. If we fail to act now, we will saddle our children with an increasingly large burden.

The President has made it clear that all options are on the table for strengthening Social Security, with the exception of raising the payroll tax rate. He has laid out principles that must guide reform and has pledged to work in good faith with Congress on this issue.

Fixing [Social Security] is quite simply our responsibility to our children and grandchildren.

**Grace Napolitano:** There is a need for Social Security reform to ensure its stability, and Congress must act. However, the president’s claim that Social Security is going broke is misleading at best. The sky is not falling, although there is no doubt that the system needs to be strengthened to meet future obligations to those who pay into the system and expect their benefits once they retire. Social Security has been effective for 70 years; prior predictions of its demise have been totally overstated.

But even without reforms, the Social Security fund will be able to meet 100 percent of its obligations until 2042. By that date, the principal will be exhausted, but the system will still bring in enough revenue from taxes to pay nearly 75 percent of benefit amounts. An even rosier Congressional Budget Office report released as recent as June 2004 says the system will be able to pay full benefits until 2052, and 80 percent after that.

Credible proposals have been introduced by Democratic members but have not been afforded an opportunity to be heard. We are open to any idea that would strengthen Social Security, but we cannot and will not accept a solution that will destroy it. We must take the time to do what needs to be



done now, what is right, instead of passing a bad bill.

### **What is your position on President Bush's plan for Social Security?**

**GN:** We are still waiting for the president to introduce a concrete plan. He has just hinted at what he is thinking about doing, but no one has seen a proposal. His suggestion to allow all U.S. workers to put part of their earnings into private investment accounts would definitely erode the Social Security system and create another government bureaucracy that would cause uncertainty for new investors.

An April report from the non-partisan Congressional Research Service found that the president's plan effectively phases out guaranteed benefits by changing their formula and applying a privatization tax for those who opt to use the private accounts. For people who have been putting their hard-earned money into the system for years, the president's idea would replace their safety net with a risky gamble with no assurance of a stable return of investment. If this roll of the dice does not pay off, the federal government and taxpayers would be stuck with the bill and Social Security recipients would see benefits that are diluted, diminished or deleted.

**AEC:** The President's top domestic priority is saving Social Security, and I share his commitment to finding a permanent fix to the problems facing the 70-year-old system. President Bush shares our community's goals of decreasing poverty in the Latino community, ensuring that Social Security is solvent for generations to come, and allowing participants to grow a nest-egg which could be passed on to loved ones.

For the Latino population, the Social Security debate will be of the utmost importance as Hispanics rely on the system more than many other Americans. Within our community, nearly 40 percent of

Hispanic beneficiaries rely on Social Security for all of their income, and three out of four rely on it for at least half their income. Moreover, because we are one of the fastest growing and youngest groups, we will also bear a greater share of the burden of supporting the current pay-as-you-go system.

### **Would the President's reforms of Social Security impact Latinas positively or negatively?**

**AEC:** The Hispanic community, as a whole, and Latinas in particular, are among those with the most to gain from the President's proposals, particularly by creating economic assets under their control.

President Bush would like younger workers and future generations to have the ability to save some of the payroll taxes they are already paying, to build savings that belong to them, not to the government. With voluntary personal accounts, younger workers would have the chance to learn about their financial choices and build a nest-egg. Personal accounts can be implemented in a way that allows us to make an investment up front that saves money for the system later. They would give our children and grandchildren the promise of a better retirement, and they would help our country create a larger pool of savings.

Personal accounts would benefit Hispanics in particular by capitalizing on our earlier, additional working years for retirement because every year's contribution to an account would add to a worker's total benefits. The savings in a personal account would remain secure and continue accruing interest even during periods of unemployment.

In what is perhaps the most important change to the system, personal retirement accounts could be passed on to loved ones. Each personal account would be under the individual worker's ownership and control. Those who elect to have a personal account would make



**U.S. Treasurer Anna Escobedo Cabral**

regular investments in conservative bonds or stocks throughout their working life, then either choose to use those investments for retirement expenses or leave them as an inheritance for the next generation. Personal accounts would enable Hispanics' earnings to grow—with the right to pass on their account balance should they die before exhausting it.

**GN:** Almost half of all Latinas currently on Social Security rely exclusively on their benefit check in retirement. The low wages they have earned during their working years did not afford them much opportunity to invest their money in the market.

Because Social Security is specifically designed to boost the retirement income of low earners with a progressive benefit formula, the program has played an enormous and necessary role in keeping Latinas out of poverty. This formula is automatically adjusted to inflation, which is another benefit for Latinas, whose life expectancies are relatively long.

If these same women were to invest their money in a private account, they would have a lot

less to show for it and could eventually end up mired in poverty in their golden years. Because of their low earnings and family obligations, Latinas would not be putting much money into these private investment accounts. Add to that management fees for the account and the proposed changes in the formula for guaranteed benefits, and an average Latina could wind up losing thousands of dollars under this proposal.

All of these concerns over the president's idea revolve around the most basic problem: the risk. I am not criticizing investing in the stock market; I am an investor. And I fully support supplementing Social Security with other retirement income such as a 401(k) plan. Because of my own experience with market fluctuation, I recognize the great risks one takes on investments. This converts the Social Security safety net into a risky proposition many cannot afford to take.

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